Is Edtech Flourishing in Latin America and Africa?

Education technology companies are popping up across Latin America and Africa, seizing the opportunity to fill the educational gaps created by governments. But drawing investors remains a top challenge because of infrastructure. This article examines the edtech market in both regions.

Despite leaps and bounds in recent years, the global education technology (edtech) market still has a long way to go to deliver significant change in emerging economies. Edtech was valued at nearly $1 billion in 2020 and is expected to increase at a compound annual growth rate of 19.9% between 2021 and 2028, according to estimates that indicate the breadth of the market. While edtech has created more innovative methods of delivering education in emerging markets by introducing stronger digital elements and enhancing access across economic segments, it has yet to bring a substantial shift in democratizing education. The COVID-19 pandemic helped catalyze change, albeit rather slowly given the adoption and access issues that are the core problems of the industry in the developing world, as pointed out by *The Economist*.

> "The main constraint to scaling edtech investments is the lack of digitalization and the accompanying infrastructure in emerging economies."

High literacy rates are crucial to achieving sustainable development, according to UNESCO, yet they are stagnating across the developing world, with figures near 50% in many African countries. Graduation rates in emerging economies appear to remain low overall. In Latin America, where literacy rates are high and education is valued, only half of the students managed to graduate from secondary education institutions as of 2017. Equity and quality of education remain the main problem as governments in developing countries fail to invest the funds required to enhance the education system or build the infrastructure needed to improve accessibility. Governments in emerging economies, especially in Africa and Latin America, are often unable to leverage the increased investment in edtech in their respective regions. The managing director of a large impact investment private equity fund explained to *Lauder Global Business Insight* that, while there is goodwill to invest in the education space in those regions, they lack the infrastructure required to make the returns desired by private investors.

The main constraint to scaling edtech investments is the lack of digitalization and the accompanying infrastructure in emerging economies. Across Africa and Latin America, insufficient government spending on critical digital infrastructure hinders the rollout of innovative educational tools. The education sector is recognized as an essential enabler for people in emerging markets looking to break the cycle of poverty and improve their lives, particularly where continuing professional development is concerned. Impact investors operating in this space promote these benefits, providing funding for innovative and early-stage projects that governments may not necessarily invest in. Nonetheless, until governments in these markets prioritize widespread internet access, digital tools, and regulatory environments, these economies will not benefit fully from the positive impacts and multiplier effects offered by edtech. According to a senior director of an impact venture capital fund, large funds will keep shying away from these markets due to the lack of infrastructure that enables these technologies on a large and equitable scale.

Investing in the Future

On the investor side, activity has proven to have high potential under the right conditions in the ecosystem. This year, Peruvian edtech platform Crehana announced the largest Series B fundraising in Latin America to date, valued at $70 million. Crehana is an edtech platform that focuses on reskilling and upskilling individuals across Latin America, delivering a seamless experience for enterprises seeking to assist employee learning and development. The company partners with over 400 experts to offer continuing professional development courses, and it achieved triple-digit growth in 2020. Crehana's landmark $70 million investment shines a light on the importance of edtech companies and the keen interest from impact investing firms to support them in Latin America. Luis Cervantes, managing director for General Atlantic, a growth equity firm that led the round, said that "we believe digital education will increase access to life-changing opportunities for lower-income populations across Latin America."

Behind the forces pouring money into edtech investments, impact-focused funds and venture capitals with an impact-oriented thesis play a considerable role, with investors such as IFC, ALIVE Ventures, and Rethink Education. Luis Narro, a venture partner at ALAYA Capital, said he sees investors with an impact-oriented thesis playing an even more prominent role in venture capital investments in Latin America in the future. In particular, edtech represents a massive area of growth due to the opportunity for positive social impact in Latin America combined with the tailwinds of high mobile penetration and government support. However, Latin America is not a solitary example. In Africa, the industry saw a nearly 90% increase in funding, from $7.6 million in 2019 to $13.7 million in 2020, and a year-on-year increase of 89.5% in January to May funding 2020 and 2021. Both continents are expected to continue this rapid rise in impact investing in edtech in similar yet different paths.

As evidenced by the scale of VC investment in edtech across Latin America and Africa, there is a clear demand for investment in the sector to help bridge educational gaps. Access to education is a fundamental building block of job creation across global emerging markets. The need for innovative solutions in education has never been more pertinent. According to UNICEF, the COVID-19 pandemic further catalyzed the need for advancement in the education sector, where school closures have left over 100 million children without in-person schooling in Latin America. However, the education sector in emerging markets is still heavily reliant on government investments and policy to further its development. According to LEK Consulting, nearly 80% of spending in the education sector is driven by governments, as opposed to 60% in health care, meaning the number of investable projects is lower. The education sector in emerging markets has traditionally been the sole responsibility of governments and international aid agencies. Impact funds have been solving this challenge by investing in ancillary education services such as teachers' training. Investisseurs et Partenaires (I&P), an Africa-focused impact investment group, has a dedicated education fund to promote education initiatives in sub-Saharan Africa. According to Emilie Debled, I&P's Executive Director for Strategic Development and Partnerships, tertiary education and professional development have also seen a significant boost in demand and innovation in response to the pandemic. However, Debled also explained that a visibility study conducted by her company revealed a lack of investment opportunities in Africa within the education space, which reflects the currently limited infrastructure and lack of government promotion of investment ecosystems. As a result, I&P created a grant to support education businesses and prepare them for the next stage of growth. Grant funding will support 45 companies, mainly in West Africa, and I&P will provide technical support and mentoring to these businesses. I&P will be looking to make equity and quasi-equity investments from its €50 million fund, which will be used for investments in Francophone African-based education companies.

Another vehicle of edtech innovation is specialized vocational training as workers seek to equip themselves with the right skills to succeed in a digital world. The public sector has an important role in ensuring that policy frameworks are crafted to support professional skills development for the population. According to the Organisation for Economic Co-operation and Development, Chile has been particularly progressive in this regard. Its government has incorporated "computational thinking" into the national curriculum as part of a coordinated effort across Chilean ministries to prepare the country for the global transition to a digital system. Across the rest of Latin America, the response to digitalization has been somewhat slower, putting the drive for relevant educational solutions in the hands of the private sector. CreaCode, an initiative co-founded in

Peru by Lauder Institute graduate Dolores de Goytisolo, offers courses and workshops for children to develop computer programming skills. According to de Goytisolo, Latin American governments are cognizant of the need to adopt computing courses into school curricula, but they are constrained by a lack of digital infrastructure and connectivity across national school systems. Until enough infrastructure is deployed in a collective private and public effort, innovative solutions like CreaCode will face barriers in reaching their maximum potential impact.

Democratizing Education

More broadly, innovation in education is driving the democratization of access to quality education for all. Education is a crucial area of focus within the United Nations 2030 Sustainable Development Goals (SDG 4: Inclusive and Equitable Quality Education), which provides a standardized framework to foster collaborative partnerships between impact investment funds and educational initiatives. Multilateral development institutions play an essential role in promoting larger-scale investments, such as International Finance Corporation's $40 million investment in Peru's Universidad de Lima. Targeted initiatives are increasingly helping encourage inclusion in the education system for women, children from low-income families, and those who live in remote rural areas.

> "Innovation in education is driving the democratization of access to good quality education for all."

One concern commonly raised regarding impact investing is the level of returns that a specific project can offer investors. According to the Global Impact Investing Network's website, 67% of the global impact investing market seeks risk-adjusted, market-rate returns. While investments in the education space offer potential to deliver significant social benefits, they often do not act as profit maximizers and thus can seem unattractive on a financial risk-reward basis. However, this is not necessarily the case. There are plenty of opportunities in impact investing that allow returns aligned with the markets while also creating social and environmental value. According to Juan Pablo Baraona and Gerardo Wijnant, education leaders at Doble Impacto, a crowdlending platform for impact investing in Chile, this trend is evident. Doble Impacto connects credit-seeking environmentally and socially conscious projects with retail and institutional investors; they see that credit risk can be lower than a traditional non-impact investment, as projects are often subject to scrutiny.

Furthermore, Doble Impacto affirms that the platform has seen significant demand for projects in the education sector. Baraona said the key is knowing how to identify, develop, and monitor solid projects in education because many of them fail to have a robust plan in terms of both impact and economics. To be successful in this space, he said, it is necessary to have sound frameworks in both these dimensions to evaluate the risk-return profile of the project, which is something that traditional banking and investors often do not have or have not yet fully developed. Furthermore, if education institutions lag in technology and management capacity, it will become increasingly challenging to supply projects for the current large appetite from investors.

Conclusion

The COVID-19 pandemic has triggered investment funds to increase their investment in social-impact causes, notably in education in emerging markets. Latin America and Africa are in the spotlight as a result, given the number of emerging economies in those regions and the potential to make a significant impact. With a workforce expected to grow by 15 and 20 million people in the next two decades in Africa, and an ever-expanding workforce in Latin America, the need to provide technological solutions to education is significant. However, companies in the space will have to find ways to incentivize investments to attract them, while funds will need to work with investment companies to create a new model that emphasizes impact and long-term growth rather than short-term gains. If tied accurately to quantitative and qualitative measurements, such as the U.N. Sustainable Development Goals, funds will be able to assess and monitor their investments and measure them by different performance standards. However, the question remains whether existing initiatives are impactful enough to make a long-term difference in expanding access, adoption, and infrastructure. Public-sector support and partnerships are crucial in ensuring the success of these initiatives. Sierra Leone is a leading example of effective public-sector support for educational initiatives through the country's technology-supported teacher professional development program. In addition, the Sierra Leone government also launched a phased Free Quality School Education (FQSE) initiative to provide free admission and tuition to all children in government-approved schools.

Collaboration between the private sector and governments is needed in Latin America and Africa. Governments from both continents need to enact enabling policies, create infrastructure for education-focused businesses, and help impact funds to thrive. Edtech initiatives in the two continents have the potential to enable personalized, mastery-based learning and equip students with the digital skills they will need for 21st-century careers. However, it must be matched with access to critical infrastructures such as internet and power connectivity.

This article was written by Dolapo Salawu, Jasmine Valeria Helme, Joaquín Campos Parodi, Michael Cheuk Hei To, and M.E. Lavi, members of the Lauder Class of 2023.

The Lauder Institute
Wharton · Arts & Sciences
University of Pennsylvania

THE LAUDER GLOBAL BUSINESS INSIGHT REPORT | 2022

Building a Better Future

Wharton
University of Pennsylvania